

## Message Text

UNCLASSIFIED

PAGE 01 PARIS 24889 211751Z

61

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 L-03 H-03 PA-03 PRS-01 USIA-15 DRC-01 (ADP) W

----- 033184

R 211625Z SEP 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3380

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

UNCLAS PARIS 24889

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: GOVERNMENT TO RETIRE PINAY GOLD-GUARANTEED RENTE

1. SUMMARY: GOVERNMENT IS CALLING IN PINAY GOLD-GUARANTEED BOND ISSUE WITHIN FRAMEWORK OF PROGRAM OF "FISCAL JUSTICE." BECAUSE HOLDINGS OF SUCH BONDS INCLUDED IN ESTATES WERE EXEMPT FROM FRENCH INHERITANCE TAXES, THEY REPRESENTED SIGNIFICANT TAX LOOPHOLE. BONDHOLDERS WILL BE OFFERED OPTION OF CASH OR NEW BONDS THAT WILL ALSO BE GOLD-GUARANTEED, BUT WHICH WILL BE SUBJECT TO INHERITANCE TAX. FRENCH TREASURY WILL NEED TOTAL OF 12 BILLION FRANCS IN CASH AND EXCHANGES IN ORDER TO REDEEM PINAY BONDS. WHILE THIS IS A LARGE-SCALE OPERATION, TREASURY SHOULD BE ABLE TO BRING IT OFF, IF NECESSARY BY DRAWING ON ITS FAIRLY COMFORTABLE CURRENT CASH POSITION TO SUPPLEMENT WHAT IT CAN RAISE FROM NEW SUBSCRIBERS TO NEW ISSUE END SUMMARY

2. IN HIS SEPTEMBER 19 PRESS CONFERENCE ON 1974 FRENCH BUDGET (SEPTELS), ECONOMICS AND FINANCE MINISTER GISCARD D'ESTAING ANNOUNCED GOVERNMENT'S DECISION TO CALL IN 1952-58 PINAY 3.5 UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PARIS 24889 211751Z

PERCENT GOLD-GUARANTEED BOND ISSUE (RENTE) AS A "MEASURE OF

FISCAL JUSTICE." FINANCE MINISTRY PRESS RELEASE OF SEPTEMBER 20  
INDICATES FOLLOWING DETAILS ABOUT OPERATION:

(A) BONDHOLDERS WILL BE OFFERED, IN EXCHANGE, NEW BONDS, WHICH  
LIKE PINAY RENTE, WILL CARRY MAINTENANCE-OF-VALUE GUARENTEE  
BASED ON PRICE OF NAPOLEON (FRENCH 20-FRANC GOLD PIECE) ON  
PARIS FREE GOLD MARKET. LIKEWISE, INTEREST (AT SLIGHTLY HIGHER  
RATE THAN 3.5 PERCENT ON PINAY RENTE) AND CAPITAL GAINS ON NEW  
ISSUE WILL BE EXEMPT FROM PERSONAL INCOME TAX, BUT CAPITAL WILL BE  
SUBJECT TO INHERITANCE TAXES, WHEREAS PINAY RENTE WAS EXEMPT  
THEREFROM. PINAY BONDHOLDERS WILL HAVE CHOICE BETWEEN EXCHANGE  
OR CASH REDEMPTION.

(B) EXCHANGE OR REDEMPTION VALUE OF PINAY BONDS WILL BE 250.03  
FRANCS FOR BONDS OF 100-FRANC FACE VALUE. THIS IS PRICE FIXED  
FOR BONDS RETIRED BETWEEN JUNE 1 AND NOVEMBER 30, 1973, AND IS  
BASED ON QUOTATIONS FOR NAPOLEON DURING 100 TRADING DAYS PRECEDING  
MAY 15.

(C) BILL AUTHORIZING NEW BOND ISSUE WILL BE SUBMITTED TO PARLIA-  
MENT AS PRIORITY MATTER, AND IT IS EXPECTED THAT OPERATIONS CAN GET  
UNDER WAY IN SECOND HALF OCTOBER.

3. PINAY RENTE HAS PROVIDED NOTORIOUS LOOPHOLE FOR AVOIDING  
INHERITANCE TAXES. ACCORDING TO SECURITIES MARKET LORE, THE  
APPROACHING DEATH OF A WEALTHY INDIVIDUAL FREQUENTLY PRECIPITATED  
SALE OF HIS ASSETS AND INVESTMENT OF THEIR PROCEEDS IN PINAYS  
LONG ENOUGH TO GET HIS ESTATE RELEASED FREE OF INHERITANCE TAXES;  
THEN PINAYS WERE SOLD AND PROCEEDS REINVESTED IN OTHER HIGHER  
YIELDING ASSETS. ESTIMATES ARE THAT THROUGH THIS DEVIDEMMOS  
MORE THAN ONETHIRD OF LARGE FORTUNES WERE PASSED ON TO HEIRS FREE  
OF INHERITANCE TAXES, WITH REVENUE LOSS TO TREASURY OF ABOUT 400  
MILLION FRANCS PER YEAR. THUS, GISCARD PRESENTED CLOSING THIS  
LOOPHOLE AS ONE OF HIS MEASURES OF "FISCAL JUSTICE" (SEPTEL).

4. PINAY BOND ISSUE WAS SUBJECT TO YEARLY AMORTIZATION WITH LAST  
BONDS DUE FOR RETIREMENT IN 1970. HOWEVER, SINCE MID-1970 GOVT  
HAS HAD OPTION OF CALLING IN ALL OUTSTANDING BONDS.

5. FOLLOWING ANNOUNCEMENT OF GOVERNMENT'S DECISION, TRADING OF  
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PARIS 24889 211751Z

PINAY BONDS ON BOURSE WAS SUSPENDED. LAST QUOTATION ON EVE OF  
ANNOUNCEMENT (SEPTEMBER 18) WAS 280 FRANCS FOR BOND WITH 100-FRANC  
FACE VALUE. THERE HAD BEEN RUMORS CIRCULATING IN BOURSE FOR SOME  
DAYS THAT GOVT MIGHT MAKE ABOVE MOVE. HOWEVER, IT WAS NOT KNOWN  
WHAT REDEMPTION VALUE WOULD BE CHOSEN. IF IT HAD BEEN CALCULATED  
ON CURRENT PRICE FOR NAPOLEON, IT WOULD HAVE BEEN ABOUT 320  
FRANCS FOR A BOND OF 100-FRANC FACE VALUE.

6. NOMINAL VALUE OF OUTSTANDING BONDS IS ABOUT 4.9 BILLION FRANCS. ACCORDINGLY, NEW ISSUE WILL HAVE TO YIELD SOME 12 BILLION FRANCS IN ORDER TO COVER COSTS OF REDEEMING PINAY BONDS. WHILE THERE SEEMS GOOD CHANCE THAT MANY PINAY BONDHOLDERS WILL ELECT FOR EXCHANGE, TREASURY MAY FIND ITSELF OBLIGED TO RAISE A FAIRLY SIZABLE AMOUNT OF NEW MONEY TO REDEEM THAT PART OF PINAY ISSUE THAT IS CASHED IN. RETENTION OF LINK TO GOLD -- ESPECIALLY NAPOLEON-- WHICH HAS A KIND OF MYSTICAL FASCINATION FOR MANY FRENCHMEN, SHOULD HELP ENHANCE SALES OF NEW BONDS TO NEW SUBSCRIBERS. IN ADDITION, TREASURY'S PRESENT CASH POSITION IS SAID TO BE CONFORTABLE. FOR EXAMPLE, SOME 1.6 BILLION FRANCS PROCEEDS OF LAST WINTER'S LOAN TO COMPENSATE FOR REVENUE LOSSES RESULTING FROM VALUE-ADDED TAX REDUCTIONS REMAIN UNSPENT

7. SO FAR, FINANCE MINISTRY HAS SAID ONLY THAT INTEREST RATE ON NEW ISSUE WILL BE "SLIGHTLY" ABOVE PINAY RATE OF 3.5 PERCENT. PRESS REPORTS PUT NEW RATE AT BETWEEN 4 AND 5 PERCENT. IRWIN

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TAX LAW, GOVERNMENT BONDS, GOLD HOLDINGS, BONDS (SECURITIES)  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 21 SEP 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973PARIS24889  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19730918/aaaaanil.tel  
**Line Count:** 132  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** kellerpr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 06 SEP 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <06-Sep-2001 by reddocgw>; APPROVED <16-Jan-2002 by kellerpr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOVERNMENT TO RETIRE PINAY GOLD-GUARANTEED RENTE  
**TAGS:** EFIN, FR  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005